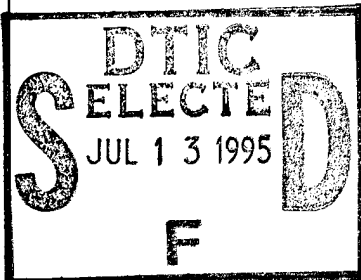


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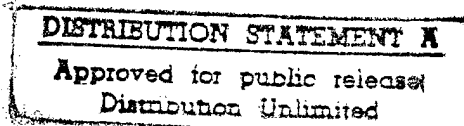
TITLE

Reducing Out-of-Service Debt

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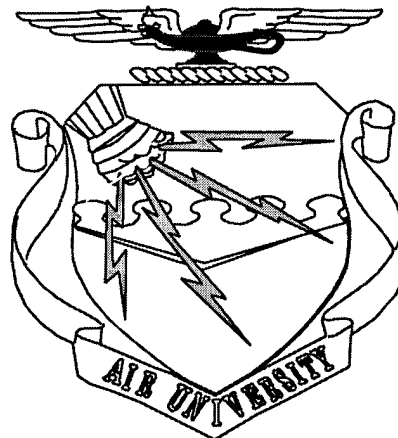
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TITLE: REDUCING OUT-OF-SERVICE-DEBT

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EXECUTIVE SUMMARY

While we must accept the reality that we can not eliminate all out-of-service debts at this time, it is possible and surely within the Department of Defense means to reduce it. This paper addresses several possible options that might prove beneficial in reducing out-of-service debts. These potential changes are linked directly to current business practices.

I will addresses four specific areas where changes appear possible. These areas fall under the categories of policies, programs, resources, and systems. I have included eight recommendations to the Defense Finance Accounting Service Director which address the changes. The first policy with the highest potential for change, addresses the basic question of why do we knowingly allow individuals to separate with debt in the first place. The second and third recommendations deal with the policies involving final separation payments and programmed separation dates. The fourth recommendation addresses the policy of debt prorations. Recommend two program changes. The first involves disbursements past separation date and the second recommends the creation of a debt notification letter prior to separation. Two recommendations relating to personnel and equipment resource issues are presented. The last recommendation addresses a current system interface.

I believe these recommendations offer an opportunity for the Department of Defense to deal with out-of-service debt. We can not afford to wait. Out-of-service debt continues to increase daily. If ever there was a time for change, the time for change is now!

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Introduction

Each year the federal government loses millions of tax payer dollars as a direct result of limited collections of out-of-service debts. As this nation moves into the 21st century, so should the business practices of the Department of Defense (DoD). Now is the time for a full scale governmental review of DoD's current debt collection policies, business practices, and operational procedures. Consistently low collection rates and fiscal constraints mandate addressing this issue which results in loss revenues. Unfortunately, we must admit and accept the reality that it may be impossible to eliminate all out-of-service debts. However, it is possible and surely within the DoD's means to reduce it. Considering every conceivable idea a feasible option is where we must begin. Eliminating out-of-service debts must remain our ultimate goal.

I will offer several possible recommendations to assist DoD as we strive to incorporate some degree of improvement in our ability to manage and reduce out-of-service debts. Four major categories are addressed. These categories relate to policies, programs, resources, and systems.

As a division chief in the Directorate for Debt and Claims Management, I have a vested interest in trying to bring about some positive changes in the way we do business. The personnel I supervise are frustrated because they see limited changes being incorporated to address this problem. The "why" questions can not continue to go unanswered.

Discussion

The first potential policy change is posed as a question: Why do we knowingly allow individuals to separate from the military who have a debt? Whether the member is separating under honorable or dishonorable conditions is really not relevant. Every individual is a valuable resource, trained to perform certain tasks or jobs in the military. Change the current policy of allowing individuals to be discharged on the anniversary date of enlistment. DoD should require all debts due the government be repaid prior to discharge. Here is a golden opportunity to really make a difference in out-of-service debts. The policy should direct individuals satisfy all debts to the government before discharge. An action of this multitude places the responsibility and resolution for out-of-service debt on the shoulders of the individuals.

The next potential change relates to our policy of processing final separation payments. Final separation payments are paid based on the best estimates of the field separation station. These estimates are based on the review of pay documentation available at that station. The problem is most separation stations rarely have all the documentation and information necessary to determine the exact final separation payment. I recommend paying all final payments through the Defense Joint Military Pay System (DJMS). This change would improve accountability and accuracy of final payments. Additionally, this measure would force field separation stations to monitor and ensure all final entitlement and collection action documents are verified and posted to the pay system in a timely manner.

In addition to changes to final separation payments, I believe major benefits could be realized by changing the separation policy. Currently, individuals are discharged on their anniversary date of their term of enlistment. I recommend this policy be changed to direct all individuals be discharged between the 20th and 30th day of the month prior to the month of separation. By narrowing the discharge window, we could dramatically reduce the number of erroneous overpayments of allotments and end-of-month checks and provide better controls for managing work flow and fund accountability.

The final potential policy change addresses the issue of debt prorations. Eliminate the authority to prorate debts for more than 12 months. If, as an exception to policy, a debt is prorated for more than 12 months, then restrict the individual to receiving 1/3 of their pay entitlements. Additionally, approve no allotments of any type for this individual until such time as the debt is repaid.

The most unbelievable reason for out-of-service debt is the result of DJMS programming. DJMS is programmed to continue to pay an individual past the date of separation reflected on the Master Military Pay Account (MMPA). There is no logic built into DJMS that will cause this system to automatically terminate payments when the separation date is not updated. Prior to DJMS, the Army's pay system would terminate all pay and allowances as of the separation date posted on the pay file. The separating individual was aware of this impending action because the system generated a remark on the leave and earning statement. I believe the program logic in DJMS must change to reflect the old logic used by the Army's pay system. Disburse no payments past the date of separation posted on the

MMPA. We advocate that it is the individual's responsibility for ensuring that pay account information is current. Our policies should mirror that belief.

When contacted after separation regarding an outstanding debt due the government, the individual's first response is "I did not know I had a debt." In many cases we have found this to be a true and very valid statement. Although many of our debts are the result of early separations, a substantial portion of out-of-service debts is discovered prior to separation. To resolve this issue, I recommend DJMS be programmed to provide debt notification statements 90 and 120 days prior to separation. Post notifications to the end-of-month leave and earning statement as well as the mid-month advisory. This action removes any doubt of proper notification.

Ask any organization with a backlog what the top two resource shortfalls are and the answer will most likely be personnel and equipment. As we strive to do more with less to recover out-of-service debts, these same two resource shortfalls continue to hinder us. Unfortunately many of our out-of-service debts require an enormous amount of research. Systematically passed debts to the Defense Debt Management System (DDMS) are not validated. Because of this, DDCM personnel perform this validation function without any additional resources. There are measures in place where the field is responsible for verifying and informing DDCM as to the reason for the debts. However, this process is often stifled because of dwindling personnel resources and increased work loads. DDCM is a revenue generating organization that continues to take personnel cuts. To adequately pursue a viable debt collection program, you must have the

personnel required to get the job done. It is time to rethink the separation of duties' requirements. DDCM should mirror corporate America. When you call a Sears' customer service representative with a problem, that representative is empowered to adjust your account on the spot. However, in DDCM, our rules and regulations mandate separation of duties that does not allow for this type of empowerment to occur. Now is the time to give our employees the authority to go with the responsibility. As personnel resources continue to dwindle, we need to increase authority not stifle it.

Every employee is entitled to have the necessary equipment needed to perform their job. Management has the responsibility to provide that equipment. When management can not provide their employees with the equipment needed to do the job, what is the end result? The end result is employees that are not 100% effective in performing their job. Budget constraints and higher priorities are understandable, but do not solve the problem. Give some priority to equipment shortages in this revenue generating organization.

The last potential change area addresses system changes. As DoD activities continue to consolidate over 300 systems currently in the field, give care and caution to the issue of system interface. System interface is a major problem that continues to hinder DDCM's ability to efficiently process out-of-service debts. The two main systems involved with out-of-service debts are DJMS and DDMS, and they do not fully interface. Once a debt is transferred from DJMS to DDMS, the original debt amount remains in DJMS. If for some reason, the debt is transferred back to DJMS, the individual will have two debts reflected on his

MMPA. The original debt transferred to DDMS and the adjusted debt that DDMS transferred to DJMS. I recommend these systems be programmed to fully interface. Any payments received and posted to one system should also be posted and processed into the other system.

Conclusion

The time for change is now. Out-of-service debts can no longer be viewed as a minor problem. Failure to recover the millions of dollars lost each year also equates to a loss in desperately needed revenues. It is time to consider new and innovative approaches if a positive difference in this area is to be achieved.

Our employees welcome the challenge to improve the process. They also want and deserve the opportunity to make a difference. Current policies, programs, resources, and systems limit rather than empower our employees with the authority to get the job done. Although it will be difficult, DoD's mind set in dealing with out-of-service debts requires change.

Recommendations

I recommend Defense Finance Accounting Service Director:

1. Not allow individuals to separate with a debt due the government.
2. Require all final separation payments be paid through DJMS.
3. Mandate all separations be completed between the 20th-30th day of the month prior to month of separation.
4. Eliminate the authority to prorate any debt due the government past 12 months.

5. Reprogram DJMS to terminate all payments based on the separation date posted on the MMPA.
6. Program DJMS to create debt notification letters at the 90 and 120 day mark prior to date of separation.
7. Staff DDCM with the personnel and equipment necessary to get the job done.
8. Fix the interface problems between DJMS and DDMS.

We need to stop the increase of out-of-service debts and establish viable processes to collect what is currently in the system. We can not afford to wait any longer for the solutions to this problem to fall in our laps. If ever there was a time for change, the time for change is now.